

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gladstone Area Schools	County Delta
Fiscal Year End 6/30/06	Opinion Date 8/28/06	Date Audit Report Submitted to State 10/15/06	

We affirm that:

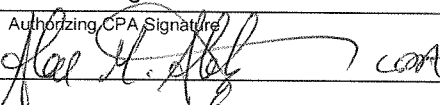
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports.	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111	
Street Address 901 Ludington Street		City Escanaba	State MI
		Zip 49829	
Authorizing CPA Signature 	Printed Name Alan M. Stotz, CPA		License Number A245934

GLADSTONE AREA SCHOOLS

GLADSTONE, MICHIGAN

**FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION**

June 30, 2006

GLADSTONE AREA SCHOOLS

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
District Wide Financial Statements	
Statement of Net Assets.....	12
Statement of Activities.....	13
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Fiduciary Net Assets.....	18
Statement of Changes in Fiduciary Net Assets.....	19
Notes to Financial Statements.....	20
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund.....	37
Budgetary Comparison Schedule - Debt Retirement Fund.....	46
Other Supplemental Information	
Combining Balance Sheet - Nonmajor Governmental Funds.....	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds.....	49
Combining Statement of Net Assets - Private Purpose Trusts.....	50
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trusts.....	51
Agency Funds:	
Combining Statement of Changes in Assets and Liabilities.....	52
Schedule of Taxable Valuations, Tax Rates and Tax Levies.....	54
Single Audit	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	56
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	58
Schedule of Expenditures of Federal Awards.....	60
Schedule of Federal Financial Awards Notes.....	62
Schedule of Findings and Questioned Costs.....	63



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Gladstone Area Schools
Gladstone, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gladstone Area Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gladstone Area School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2006, on our consideration of the Gladstone Area School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 37 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gladstone Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit organizations*, and is not a required part of the basic financial statements. Additionally, the statements listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Andersen, Tackman & Company P.C.
Certified Public Accountants

August 28, 2006

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

This section of the Gladstone Area School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the Debt Retirement Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Financial Section

Basic Financial Statements

- District Wide Financial Statements

Fund Financial Statements

- Balance Sheet-Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Assets
- Notes to Financial Statements

Required Supplemental Information

- Budgetary Comparison Schedule

Other Supplemental Information

- Combining Balance Sheet Nonmajor Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

The School District as a Whole

The following summarizes the net assets at fiscal year ended June 30, 2006

NET ASSETS SUMMARY

Assets	<u>2005</u>	<u>2006</u>
Current Assets	\$ 4,532,100	\$ 4,141,230
Capital Assets	<u>14,374,686</u>	<u>13,735,702</u>
Total Assets	<u>\$18,906,786</u>	<u>\$17,876,932</u>
Liabilities		
Current Liabilities	\$ 4,436,237	\$ 4,200,846
Long-term Liabilities	<u>18,125,353</u>	<u>\$17,375,453</u>
Total Liabilities	<u>\$22,561,590</u>	<u>\$21,576,299</u>
Net Assets		
Invested in property and equipment-net of related debt	\$ (980,093)	\$ (917,484)
Restricted	413,657	383,812
Unrestricted (Deficit)	<u>(3,088,368)</u>	<u>(3,165,695)</u>
Total Net Assets	<u>\$ (3,654,804)</u>	<u>\$ (3,699,367)</u>

The above analysis focuses on the net assets. The School District's net assets were a \$3,699,367 deficit as of June 30, 2006. Capital assets, net of related debt, totaled a \$917,484 deficit. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$383,812 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining \$3,165,695 deficit represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

The results of this year's operations for Gladstone Area Schools as a whole are reported in the statement of activities, which show the changes in net assets for fiscal year 2006. Following the rules of GASB 34, a revenue and expense comparison to the previous year is shown.

Program Revenues:	<u>2005</u>	<u>2006</u>
Charges for Services	\$ 363,578	\$ 390,589
Operating Grants and Contributions	<u>1,117,410</u>	<u>916,143</u>
Total Program Revenue	<u>\$ 1,480,988</u>	<u>\$ 1,306,732</u>
 General Revenues:		
Property taxes levied for general operations	\$ 646,691	\$ 703,087
Property taxes levied for debt service	1,477,475	1,560,297
State Foundation Allowance	10,852,024	11,042,459
Other	<u>227,557</u>	<u>236,379</u>
Total General Revenues	<u>\$13,203,747</u>	<u>\$13,542,222</u>
 Total Revenues	 <u>\$14,684,735</u>	 <u>\$14,848,954</u>
 Expenses:		
Instruction	\$ 8,348,008	\$ 8,527,686
Support Services	4,051,113	4,204,615
Depreciation-Unallocated	539,028	522,686
Interest on Long-Term Debt	1,302,538	744,802
Loss on Sale of School Property	-0-	146,809
Athletics	186,539	185,131
Food Services	500,097	446,291
Public Library	<u>115,814</u>	<u>115,497</u>
Total Expenses	<u>\$15,043,137</u>	<u>\$14,893,517</u>
 Change in net assets	 <u>\$ (358,402)</u>	 <u>\$ (44,563)</u>

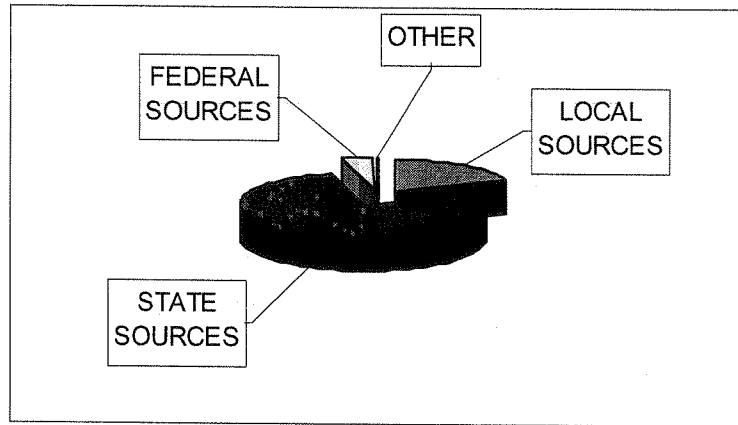
As indicated above, net assets decreased by \$44,563. This decrease relates directly to the operations of the district during the year.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Revenues

The following chart illustrates the Districts sources of revenues:



Revenue chart is based on all District Funds combined

Sources of Revenues

Local sources of revenues total \$2,786,076 and include revenues to the General Fund of \$842,994, School Lunch Fund of \$222,196, Athletic Fund of \$45,995, Public Library Fund of \$114,594, and Debt Retirement Fund of \$1,560,297.

State sources of revenues total \$11,429,406 and include revenues to the General Fund of \$11,403,765, School Lunch Fund of \$20,036, and Public Library Fund of \$5,605. State Sources of revenue make up 90.11% of General Fund Revenues. This ties the district directly to the State's overall economy.

Federal sources of revenues total \$561,366 and include revenues to the General Fund of \$356,340, and School Lunch Fund of \$205,026.

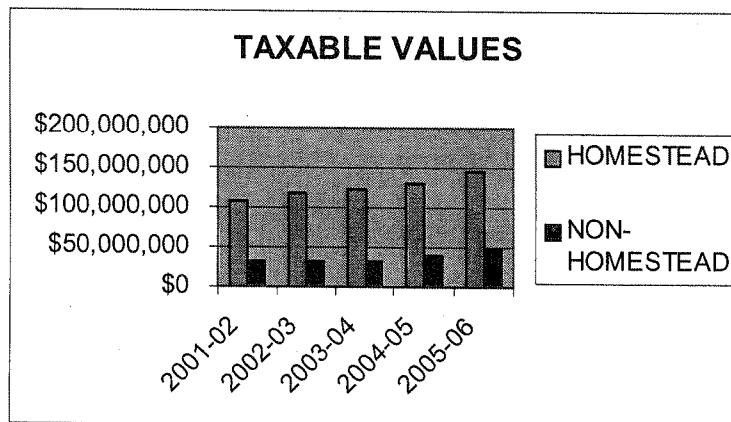
Other sources of revenues total \$56,631 and include revenue to the General Fund of \$51,120, and School Lunch Fund of \$5,511.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Property Taxes

A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$2,263,384. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 8.56-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments. Over the last 5 years taxable values have increased on average 7.49% and 5.8% for homestead and non-homestead properties, respectively. The following graph illustrates this increase:



Unrestricted State Aid Foundation Allowance

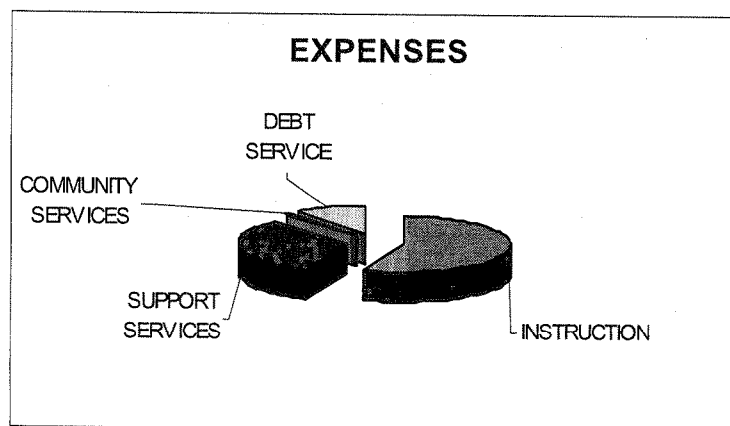
The most significant portion of funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$6,875 per student for the 2005-2006 fiscal year. The number of students to be funded is calculated by student enrollment blended at 75% of current year September count and 25% of prior year February count. Total blended student enrollment for this fiscal year is 1706.73. The overall funding is then reduced by the District's non-homestead tax levy based on 18-mills.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Expenses

The following chart illustrates the District's expenses:



Expense chart is based on all District Funds combined

Expenses include Instruction of \$8,492,100, Support Services of \$4,903,180, Community Services of \$115,497, and Debt Service of \$1,593,310. School Lunch Fund and Athletic Fund expenses are included in Support Services.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

At June 30, 2006, the District had \$22,294,754 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

	<u>2005</u>	<u>2006</u>
Assets		
Land	\$ 161,340	\$ 149,340
Land Improvements	545,368	539,740
Buildings and Improvements	20,522,518	19,896,018
Vehicles	963,962	963,962
Machinery and Equipment	<u>765,341</u>	<u>745,694</u>
Total	\$22,958,529	\$22,294,754
Less Accumulated Depreciation	<u>(8,583,843)</u>	<u>(8,559,052)</u>
Net Total	<u>\$14,374,686</u>	<u>\$13,735,702</u>

This was a decrease in capital assets of \$663,775 over last year and includes the sale of Flat Rock School. Depreciation expense for the year is \$522,686.

Debt

At the end of this year the District had \$14,610,000 in General Obligation Bonds outstanding. This is a decrease of \$680,000, which is the result of principal payments made on the bonds.

Economic Factors and Next Year's Budgets and Rates

The Board of Education and administration consider many factors when setting the School District's 2006 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2006 budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Original vs. Revised Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2005-2006, the budget was revised in October 2005, February 2006, and June 2006.

General Fund Revenues

Total revenues-June revision	\$12,718,885
Total revenues-original budget	<u>12,732,296</u>
Difference	<u>\$ (13,411)</u>

Increase in Revenue Budget

The District's actual general fund revenues were \$64,666 less than the revised budget, a variance of .51%.

The most significant revised budget adjustment for the year was:

- Carryover of grant funds into next fiscal year

General Fund Expenditures

Total expenditures-June revision	\$12,976,451
Total expenditures-original budget	<u>12,934,831</u>
Difference	<u>\$ 41,620</u>

Increase in Expenditure Budget

The District's actual general fund expenditures were \$212,593 less than the revised budget, a variance of 1.66%.

Some of the significant revised budget adjustments for the year include:

- Grant dollars unspent to carryover into next fiscal year
- Fewer vacation and sick leave payouts at the end of the year

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.

GLADSTONE AREA SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 1,701,635
Investments	217,197
Accounts Receivable	2,207,874
Inventories	<u>14,524</u>
Total Current Assets	<u>4,141,230</u>
Non-Current Assets:	
Capital Assets - net	<u>13,735,702</u>
Total Assets	<u><u>\$ 17,876,932</u></u>
Liabilities:	
Current Liabilities:	
Accounts Payable	\$ 264,485
Notes Payable	1,500,000
Interest Payable	297,242
Deferred Revenue	28,808
Accrued Payroll	773,764
Accrued Employee Benefits	495,337
Current Maturities of Long-Term Debt	<u>841,210</u>
Total Current Liabilities	<u>4,200,846</u>
Non-Current Liabilities:	
Bonds Payable	14,726,323
Notes Payable	1,913,869
Compensated Absences Payable	1,336,771
Early Retirement Payable	239,700
Less Current Maturities Reported Above	<u>(841,210)</u>
Total Non-Current Liabilities	<u>17,375,453</u>
Total Liabilities	<u><u>\$ 21,576,299</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	\$ (917,484)
Restricted for:	
Debt Service	383,812
Unrestricted (Deficit)	<u>(3,165,695)</u>
Total Net Assets	<u><u>\$ (3,699,367)</u></u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Instruction:				
Basic Programs	\$ 6,836,453	\$ 54,818	\$ 17,650	\$ (6,763,985)
Added Needs	1,691,244	-	656,409	(1,034,835)
Total Instruction	8,527,697	54,818	674,059	(7,798,820)
Support Services:				
Pupil	440,647	-	-	(440,647)
Instructional Staff	282,911	-	-	(282,911)
General Administration	248,305	-	-	(248,305)
School Administration	977,834	-	-	(977,834)
Business	218,682	-	-	(218,682)
Operation and Maintenance	1,229,820	-	-	(1,229,820)
Pupil Transportation	612,024	-	-	(612,024)
Activities Office	112,550	-	-	(112,550)
School Improvement	2,781	-	-	(2,781)
Outgoing Transfers	79,050	-	-	(79,050)
Total Support Services	4,204,604	-	-	(4,204,604)
Other:				
Depreciation - Unallocated	522,686	-	-	(522,686)
Interest on Long-Term Debt	744,802	-	-	(744,802)
Loss on the Sale of School Property	146,809	51,120	-	(95,689)
Athletics	185,131	45,995	-	(139,136)
Food Services	446,291	227,707	225,062	6,478
Public Library	115,497	10,949	17,022	(87,526)
Total Other	2,161,216	335,771	242,084	(1,583,361)
Total Governmental Activities	<u>\$ 14,893,517</u>	<u>\$ 390,589</u>	<u>\$ 916,143</u>	(13,586,785)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				703,087
Property Taxes Levied for Debt Service				1,560,297
State Aid Formula Grants				11,042,459
Medicaid Reimbursement				37,653
Investment Earnings				72,124
City of Gladstone Public Library Appropriation				20,000
Penal Fines for Public Library Operations				72,228
Rental of School Facilities				4,460
Miscellaneous Sources				29,914
Total General Revenues				<u>13,542,222</u>
CHANGE IN NET ASSETS				(44,563)
Net Assets, Beginning of Year				<u>(3,654,804)</u>
NET ASSETS, END OF YEAR				<u>\$ (3,699,367)</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Equivalents	\$ 1,308,875	\$ 319,762	\$ 72,998	\$ 1,701,635
Investments	-	-	217,197	217,197
Accounts Receivable	2,180,679	-	27,195	2,207,874
Inventories	-	-	14,524	14,524
Due from Other Funds	-	-	3,382	3,382
TOTAL ASSETS	\$ 3,489,554	\$ 319,762	\$ 335,296	\$ 4,144,612
LIABILITIES:				
Accounts Payable	\$ 255,311	\$ -	\$ 9,174	\$ 264,485
Notes Payable	1,500,000	-	-	1,500,000
Interest Payable	43,678	-	-	43,678
Deferred Revenue	71,612	-	11,045	82,657
Accrued Payroll	770,142	-	3,622	773,764
Accrued Employee Benefits	489,714	-	5,623	495,337
Due to Other Funds	3,382	-	-	3,382
TOTAL LIABILITIES	3,133,839	-	29,464	3,163,303
FUND BALANCES:				
Fund Balance:				
Reserved for Inventories	-	-	3,479	3,479
Reserved for Debt Service	64,050	319,762	-	383,812
Unreserved:				
Undesignated	291,665	-	-	291,665
Undesignated - Special Revenue Funds	-	-	85,156	85,156
Undesignated - Capital Project Funds	-	-	217,197	217,197
TOTAL FUND BALANCES	355,715	319,762	305,832	981,309
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,489,554	\$ 319,762	\$ 335,296	\$ 4,144,612

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total fund balances - governmental funds	\$ 981,309
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$22,294,754, and the accumulated depreciation is \$8,559,052.	13,735,702
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Long-term assets that are not available to pay for current period expenditures and are shown as deferred in the specific governmental funds.	53,849
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Bonds payable	\$ 14,726,323	
Notes payable - bleachers	43,186	
Note payable - State Bond Loan Fund	1,870,683	
Accrued interest on bonds and notes	253,564	
Compensated absences	1,336,771	
Early retirement payable	239,700	
	<u>239,700</u>	<u>(18,470,227)</u>

Total net assets - governmental activities	<u>\$ (3,699,367)</u>
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the year ended June 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Local Sources	\$ 842,994	\$ 1,560,297	\$ 382,785	\$ 2,786,076
State Sources	11,403,765	-	25,641	11,429,406
Federal Sources	356,340	-	205,026	561,366
Other	51,120	-	5,511	56,631
TOTAL REVENUES	12,654,219	1,560,297	618,963	14,833,479
EXPENDITURES:				
Instruction:				
Basic Programs	6,800,856	-	-	6,800,856
Added Needs	1,691,244	-	-	1,691,244
Total Instruction	8,492,100	-	-	8,492,100
Support Services:				
Pupil	440,647	-	631,422	1,072,069
Instructional Staff	282,911	-	-	282,911
General Administration	248,305	-	-	248,305
School Administration	977,834	-	-	977,834
Business	218,682	-	-	218,682
Operation and Maintenance	1,229,820	-	-	1,229,820
Pupil Transportation	612,024	-	-	612,024
Activities Office	112,550	-	-	112,550
School Improvement	2,781	-	-	2,781
Outgoing Transfers	79,050	-	-	79,050
Community Services	-	-	115,497	115,497
Debt Service	67,154	1,593,310	-	1,660,464
Total Support Services	4,271,758	1,593,310	746,919	6,611,987
TOTAL EXPENDITURES	12,763,858	1,593,310	746,919	15,104,087
EXCESS REVENUES (EXPENDITURES)	(109,639)	(33,013)	(127,956)	(270,608)
OTHER FINANCING SOURCES (USES):				
Interest Earned	54,769	10,368	6,987	72,124
Operating Transfers In	-	-	224,551	224,551
Operating Transfers Out	(224,551)	-	-	(224,551)
TOTAL OTHER FINANCING SOURCES (USES)	(169,782)	10,368	231,538	72,124
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	(279,421)	(22,645)	103,582	(198,484)
Fund Balance, Beginning of Year	635,136	342,407	202,250	1,179,793
FUND BALANCE, END OF YEAR	\$ 355,715	\$ 319,762	\$ 305,832	\$ 981,309

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (198,484)
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The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$522,686) exceeds capital outlays (\$30,512) for the period.	(492,174)
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A loss on the sale of fixed assets is not recorded in the governmental funds as they do not record fixed assets as capital items. However, in the statement of activities losses from the sale of fixed assets are recorded when incurred.	(146,810)
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Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net assets.	757,798
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the specific governmental funds.	(56,647)
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In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(66,729)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.	158,483
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (44,563)</u>
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 14,735	\$ 101,107
Accounts Receivable	10,250	-
TOTAL ASSETS	<u>\$ 24,985</u>	<u>\$ 101,107</u>
LIABILITIES:		
Scholarships Payable	\$ 13,750	\$ -
Due to Student Groups	-	101,107
TOTAL LIABILITIES	<u>\$ 13,750</u>	<u>\$ 101,107</u>
NET ASSETS		
Reserved for Scholarships	\$ 8,171	
Unreserved	3,064	
TOTAL NET ASSETS	<u>\$ 11,235</u>	

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2006

	Private- Purpose Trusts
ADDITIONS:	
Gifts and Contributions	\$ 16,248
Interest Earned	92
	<hr/>
TOTAL ADDITIONS	16,340
	<hr/>
DEDUCTIONS:	
Scholarships Awarded	14,750
Miscellaneous	1,213
	<hr/>
TOTAL DEDUCTIONS	15,963
	<hr/>
CHANGE IN NET ASSETS	377
Net Assets, Beginning of Year	<hr/> 10,858
NET ASSETS, END OF YEAR	<hr/> \$ 11,235

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

(1) Reporting Entity – In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39. Based upon the criteria outlined in this statement, the financial statements of the Gladstone Area Schools contain all the funds controlled by the District's Board of Education. There are no other entities that meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts:

- Invested in capital assets, net of related debt – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Restricted net assets – This category consists of net assets with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$383,812 of restricted net assets in the Statement of Net Assets due to the provisions of enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the District's net assets resulting from the current year's activities.

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Athletic and Bookstore Fund and Public Library Fund.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency funds maintained by the District are the Middle School Activity, the High School Activity, the Vocational Activity Fund and the James T. Jones Activity Fund.

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Investments – Investments are recorded at fair market value.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund utilizes the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(7) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

Government-wide Statements

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Assets. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 – 15 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(8) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets is presented below:

Financial statement presentation:	
Cash and Equivalents	\$ 1,817,477
Investments	<u>217,197</u>
 TOTAL	 <u><u>\$ 2,034,674</u></u>
Composition of balances:	
Imprest Cash	\$ 837
Deposits:	
Checking Accounts	1,440,857
Savings Accounts	375,783
Investments	<u>217,197</u>
 TOTAL	 <u><u>\$ 2,034,674</u></u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The District's investments are with the Michigan Liquid Asset Fund (MILAF). This is a mutual fund that is not subject to risk categorization. These investments are recorded at estimated fair value, which is based on quoted market prices.

Interest Rate Risk. The District carries no significant interest rate risk as all of its holdings are in bank accounts or mutual funds with a high degree of liquidity.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of June 30, 2006, the

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B – CASH AND EQUIVALENTS (continued)

District did not hold any commercial paper.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2006 the District held \$2,000,491 in checking and savings accounts. Of this amount \$1,733,701 was uninsured and uncollateralized.

Concentration of Credit Risk. The District has no significant concentration of credit risk due to fact that its deposits are with area banks or with the MILAF mutual fund.

Foreign Currency Risk. The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2005	Additions	Disposals	Balance June 30, 2006
Land (not being depreciated)	\$ 161,340	\$ -	\$ 12,000	\$ 149,340
Land Improvements	545,368	-	5,628	539,740
Buildings and Improvements	20,522,518	-	626,500	19,896,018
Vehicles	963,962	-	-	963,962
Machinery and Equipment	765,341	30,512	50,159	745,694
Depreciable Assets	22,797,189	30,512	682,287	22,145,414
Total Assets	22,958,529	30,512	694,287	22,294,754
Accumulated Depreciation	(8,583,843)	(522,686)	(547,477)	(8,559,052)
Net Total	\$ 14,374,686	\$ (492,174)	\$ 1,241,764	\$ 13,735,702

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

NOTE E - ACCRUED FRINGE BENEFITS

The District, as part of the various employment contracts with its personnel, allows for annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days – Various office, custodial and administrative employees of the District are allowed to accumulate vacation days in the year when they are earned. Year-round administrators, other than the superintendent, must use their vacation before June 30. Liability of the District for the employees' unused vacation days has been calculated to be \$44,423 at June 30, 2006.

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

Teachers - Twelve days are allowed annually, accumulative to 160 days. Accumulated days are payable only upon retirement or death, and then only to teachers with 10 years employment. The amount payable is at a rate of one-half of the teacher's daily rate of pay at time of retirement or death, multiplied by the number of accumulated unused sick days up to a maximum of 125 days.

Non-Teaching Employees – One-half day per month is allowed with a maximum accumulation of 132 days. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death. Employees hired after July 1, 2005 shall not accumulate any sick days.

Administrators - Thirteen days per year are allowed for all administrators, with a maximum accumulation of 165 days. Accumulated days are payable only upon retirement or death, and then only to administrators with 10 years employment. The amount payable is at a rate that varies from 55 percent to 60 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 125 days.

Superintendent - One day per month is allowed, accumulative to 160 days. Accumulated days are

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E – ACCRUED FRINGE BENEFITS (continued)

payable in total at the superintendent's actual rate of pay, upon retirement or death.

The total unused sick leave earned as of June 30, 2006 has been calculated to be \$2,745,651. The accrued liability of \$1,241,475 represents the amount expected to be paid upon retirement or death for employees who have vested and those considered as likely to vest.

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year.

A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry the personal days to the next year. Administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year.

The accrued liability for unused personal days as of June 30, 2006 amounted to \$50,873.

Early Retirement Incentive - During the year ended June 30, 2006, eligible employees were allowed to choose between two early retirement incentive plans. The current employment contracts with teachers and administrators allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of \$150 per month for a period of up to seven years. At June 30, 2006, 42 retirees were receiving, or eligible to begin receiving, this early retirement incentive. The total estimated early retirement incentive liability, under current employment contracts, as of June 30, 2006 amounted to \$239,700.

NOTE F - DEFERRED REVENUE

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenue represents unexpended funds received or receivable from state and federal project grants. Deferred revenue at June 30, 2006 consisted of the following:

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F – DEFERRED REVENUE (continued)

General Fund:	
At Risk Grant	\$ 1,458
Gifted & Talented	92
Durant	20,541
Vocational Education	15,463
2% Casino Revenue	21,097
Preschool	750
Driver's Education	<u>12,211</u>
Subtotal	71,612
Hot Lunch Fund:	
Inventory	<u>11,045</u>
Total	<u><u>\$ 82,657</u></u>

NOTE G – SHORT-TERM DEBT

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	Balance June 30, 2005	Additions	Repayments	Balance June 30, 2006
Michigan Municipal Bond Authority	<u>\$ 1,650,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,650,000</u>	<u>\$ 1,500,000</u>

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of the changes in general long-term debt for the year ending June 30, 2006:

	Durant Bonds	General Obligation Bonds	Notes Payable	Accrued Fringe Benefits	Total
Balance, June 30, 2005	\$ 125,859	\$ 15,290,000	\$ 1,935,461	\$ 1,556,412	\$ 18,907,732
Additions	-	-	-	66,729	66,729
Retirements	<u>(9,536)</u>	<u>(680,000)</u>	<u>(21,592)</u>	<u>(46,670)</u>	<u>(757,798)</u>
Balance, June 30, 2006	<u>\$ 116,323</u>	<u>\$ 14,610,000</u>	<u>\$ 1,913,869</u>	<u>\$ 1,576,471</u>	<u>\$ 18,216,663</u>

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

At June 30, 2006 the School District's long-term debt consisted of the following:

Durant Bonds

Bonds payable, due in annual installments of principal and Interest at a rate of 4.76%. Payments are due annually on May 15 th beginning in 2006 and continuing until 2013.	\$ <u>116,323</u>
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General Obligation Bonds

February 3, 1997 issue due in one annual installment on May 1, 2007. Interest is due semiannually at a rate of 6.5%	\$ 600,000
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December 3, 1998 issue used to refund a portion of the February 3, 1997 issue, due in annual installments varying from \$35,000 to the final principal payment of \$390,000 due May 1, 2026. Interest is due semiannually with variable rates ranging from 4.05% to 4.75%.	7,325,000
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November 18, 2004 issue used to refund a portion of the February 3, 1997 issue, due in annual installments varying from \$60,000 to \$390,000 with the final principal payment being due on May 1, 2026. Interest is due semiannually at variable rates ranging from 2.5% to 4.5%	<u>6,685,000</u>
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TOTAL GENERAL OBLIGATION BONDS	\$ <u>14,610,000</u>
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Notes Payable

June 4, 2002 borrowing due in variable semi-annual installments from November 1, 2002 through November 1, 2007, including interest at 3.5%. Principal payments are due annually from November 1, 2003 through November 1, 2007.	\$ 35,590
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June 4, 2002 borrowing due in variable semi-annual installments from November 1, 2002 through November 1, 2007, including interest at 3.5%. Principal payments are due annually from November 1, 2003 through November 1, 2007.	7,596
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GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

4/29/98, 10/29/98, 10/25/99, 10/25/00, 10/25/01 and 10/25/02 borrowings from the Michigan Department of Treasury at various interest rates ranging between 5.125% and 2.875%. Payment schedule not determined. 1,870,683

TOTAL NOTES PAYABLE \$ 1,913,869

The estimated debt service requirements for principal to maturity as of June 30, 2006, with the exception of the Michigan Department of Treasury note and accrued fringe benefits other than early retirement, is as follows:

Year Ending 6/30	General Obligation Bonds	Notes Payable	Early Retirement Incentives	Principal Total	Interest Total
2007	\$ 755,567	\$ 21,593	\$ 64,050	\$ 841,210	\$ 653,249
2008	745,465	21,593	52,350	819,408	593,748
2009	760,964	-	45,900	806,864	567,619
2010	781,485	-	36,300	817,785	540,217
2011	782,032	-	22,500	804,532	511,333
2012-2016	3,745,810	-	18,600	3,764,410	2,100,491
2017-2021	3,620,000	-	-	3,620,000	1,291,237
2022-2026	3,535,000	-	-	3,535,000	486,958
TOTAL	<u>\$ 14,726,323</u>	<u>\$ 43,186</u>	<u>\$ 239,700</u>	<u>\$ 15,009,209</u>	<u>\$ 6,744,852</u>

Accrued Employee Benefits

Accrued employee benefits included in general long-term debt is for the accumulated terminal leave built up by employees from unused sick leave, vacation days, personal days and early retirement incentive, as is further discussed in Note E. The accumulated employee benefits included in general long-term debt at June 30, 2006 was \$1,576,471.

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus future payments are unknown at June 30, 2006.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

The debt service requirements for the note payable to Michigan Department of Treasury is not listed above as this note will be repaid as funds become available in the Debt Retirement Fund. Funds will become available as the debt retirement tax levy begins to exceed the debt payment schedule. An interest only payment of \$239,900 occurred during the year ended June 30, 2006. The remainder of the debt repayment schedule remains uncertain.

NOTE I - RESERVED FUND BALANCE

Fund balance has been reserved in the general fund for the current portion of early retirement benefits in the amount of \$64,050.

NOTE J – INTERFUND ACTIVITY

During the year the District had interfund activity that was for operational purposes. As of June 30, 2006 the General Fund had \$3,382 that was due back to the School Lunch Special Revenue Fund. In addition, the General Fund transferred \$141,691 to the Athletics & Bookstore Special Revenue Fund and \$82,860 to the Major Maintenance Capital Projects Fund during the year. For the government-wide financial statements this interfund activity has been eliminated.

NOTE K - PROPERTY TAXES

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1, and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District tax rates are 18.00 mills per \$1,000 taxable value on non-homestead property for general operations and 8.56 mills per \$1,000 taxable value on both homestead and non-homestead property for debt retirement.

NOTE L - RETIREMENT PLAN

Plan Description - The School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing, multiple-employer, statewide public employee retirement plan governed by the State of Michigan. The District's total annual payroll for the year ended June 30, 2006 was \$7,800,529 of which \$7,607,312 was eligible compensation under MPERS.

All non-student employees are eligible to participate in the MPERS. Benefits vest after 10 years of service. Employees under the Basic Plan may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of service. A Member Investment Plan (MIP) member may retire at any age with 30

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L – RETIREMENT PLAN (continued)

years of credited service or at age 60 with 5 years of service. Both Basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The System also provides survivor, death and disability benefits.

Benefits are paid monthly over the member's lifetime and are equal to 1.5% of the members' final average compensation multiplied by the member's years of credit service. The final average compensation period for Basic members is sixty consecutive months and for MIP members it is 36 consecutive months. Also under MPSERS, retirees have the option of continuing health, dental and vision coverage, with a portion of the cost being borne by them.

Contributions Required and Made - The District is required by state statute to contribute 16.34% of all eligible employees' salaries to the System. Employees who are members of the MIP (membership is required for employees hired after December 31, 1989) are required by statute to contribute an additional 4% of their salary to the Plan. Total School District contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$1,217,100, \$1,094,204, and \$965,900, respectively, which were equal to the required contributions for each year.

MPSERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MPSERS at P.O. Box 30673, Lansing, MI 48909-8103, or by calling (517) 322-5103.

NOTE M - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on 25 percent of pupil membership count taken in February of 2005 and 75 percent of pupil membership count taken in September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note K which discusses property taxes.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE N - BUDGETS AND BUDGETARY ACCOUNTING

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation
Major functional group
Department
Program
Activity

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE O – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE P - DURANT BONDS AND STATE REVENUE SOURCE

The Gladstone Area Schools are to receive a total of \$394,007 as a result of the Durant lawsuit settlement. The Gladstone Area Schools received \$197,004 from Durant bond proceeds during fiscal year 1999 and will also receive \$197,004 over a ten-year period from 2000 to 2009. During fiscal year 1999, the Gladstone Area Schools received the entire \$197,004 Durant bond proceeds and the first of the payments of the settlement payments in the amount of \$19,700. During fiscal years 2000 – 2006 the District received each of the payments of \$19,700. As of June 30, 2006, \$59,104 is yet to be received from the State of Michigan.

The Durant bonds are a legal obligation of the school district and are recorded in these financial statements as long-term debt. The annual State of Michigan appropriation is the only revenue source for making the debt service payment on the bonds. If the state legislature fails to appropriate the funds, the District is under no obligation for payment.

NOTE Q - OTHER COMMITMENTS AND CONTINGENCIES

The retiree health, dental and vision coverage under the Michigan Public School Employees Retirement System (MPERS - see Note L) is currently funded on a pay-as-you-go basis. This funding policy is being challenged in the state courts. The outcome of this litigation and its potential effect on the School District are uncertain as of the date of these financial statements.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE Q – OTHER COMMITMENTS AND CONTINGENCIES (continued)

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Local Sources:				
Property Tax Levy	\$ 646,086	\$ 703,087	\$ 703,087	\$ -
Preschool Fees	28,283	39,433	39,433	-
Drivers Education Fees	20,424	18,841	15,385	(3,456)
Rental of School Facilities	5,000	4,460	4,460	-
2% Casino Revenue	14,159	63,480	50,713	(12,767)
Miscellaneous	40,841	28,741	29,916	1,175
Total Local Sources	<u>754,793</u>	<u>858,042</u>	<u>842,994</u>	<u>(15,048)</u>
State Sources:				
State Aid - Foundation Grant	11,161,657	11,044,651	11,042,459	(2,192)
Other State Aid:				
Special Education	52,544	52,544	52,544	-
Vocational Education	26,485	44,285	28,098	(16,187)
Durant Funds	19,700	57,101	36,560	(20,541)
At Risk Grant	280,675	246,647	243,904	(2,743)
Gifted & Talented	-	292	200	(92)
Total State Sources	<u>11,541,061</u>	<u>11,445,520</u>	<u>11,403,765</u>	<u>(41,755)</u>
Federal Sources:				
IDEA Project	64,172	-	-	-
Medicaid Reimbursement	36,675	36,547	37,653	1,106
Title I	211,876	210,890	198,112	(12,778)
Title V	1,056	697	689	(8)
Title IIA	89,706	79,551	83,379	3,828
Title II Technology	129	3,424	3,424	-
Indian Education	29,150	29,805	29,794	(11)
Drug Free Grant	3,478	3,289	3,289	-
Total Federal Sources	<u>436,242</u>	<u>364,203</u>	<u>356,340</u>	<u>(7,863)</u>
Other:				
Proceeds from the Sale of School Property	200	51,120	51,120	-
TOTAL REVENUES	<u>12,732,296</u>	<u>12,718,885</u>	<u>12,654,219</u>	<u>(64,666)</u>
EXPENDITURES:				
Instruction:				
Basic Programs:				
Elementary:				
Salaries:				
Teachers	\$ 1,699,533	\$ 1,675,948	\$ 1,673,624	\$ 2,324
Schedule B	-	666	666	-
Aides	12,959	-	-	-
Substitutes	33,418	29,344	28,421	923
Severance Pay	26,439	26,439	26,439	-
Early Retirement	22,600	23,950	23,950	-
FICA	136,916	133,764	133,425	339
Health Insurance	448,836	450,946	450,665	281
Insurance Opt-out	4,800	4,800	4,350	450
Retirement	285,281	283,457	282,515	942
Repair & Maintenance	25,407	26,223	26,170	53
Travel	5,411	2,019	491	1,528
Unemployment	-	3,971	1,487	2,484
Teaching Supplies	61,666	55,951	55,168	783
Textbooks	1,540	100	90	10
Workers' Compensation	3,608	3,963	3,963	-
Other Supplies	20,578	12,117	11,780	337
Total Elementary	<u>2,788,992</u>	<u>2,733,658</u>	<u>2,723,204</u>	<u>10,454</u>

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Middle School:				
Salaries:				
Teachers	1,176,323	1,188,667	1,185,851	2,816
Schedule B	12,015	12,467	11,817	650
Substitutes	14,960	19,100	19,029	71
Severance Pay	21,637	21,637	21,637	-
Early Retirement	21,250	21,100	21,100	-
FICA	94,935	96,241	95,971	270
Health Insurance	287,468	289,977	289,610	367
Insurance Opt-out	4,800	5,070	5,070	-
Retirement	196,619	196,320	195,462	858
Other Supplies	3,600	3,745	3,689	56
Repair & Maintenance	7,049	9,800	8,502	1,298
Travel	4,320	1,164	809	355
Unemployment	10,000	3,970	2,734	1,236
Workers' Compensation	2,181	2,769	2,769	-
Teaching Supplies	15,300	15,998	15,938	60
Textbooks	6,874	7,382	7,369	13
Total Middle School	1,879,331	1,895,407	1,887,357	8,050
Secondary:				
Salaries:				
Teachers	1,319,004	1,323,290	1,323,288	2
Schedule B	23,770	22,507	22,506	1
Substitutes	25,000	20,493	20,182	311
Early Retirement	19,100	19,100	19,100	-
FICA	105,989	105,948	105,948	-
Health Insurance	347,484	329,437	328,997	440
Insurance Opt-out	3,600	4,980	4,980	-
Retirement	223,494	219,665	219,557	108
Repair & Maintenance	19,075	15,626	15,032	594
Travel	3,600	3,160	2,997	163
Unemployment	-	724	724	-
Workers' Compensation	2,755	3,132	3,132	-
Contracted Services	10,000	15,450	15,443	7
Teaching Supplies	42,120	41,545	37,766	3,779
Textbooks	2,700	2,700	2,244	456
Other Supplies	5,580	4,755	3,438	1,317
Total Secondary	2,153,271	2,132,512	2,125,334	7,178
Pre-School:				
Salaries:				
Teachers	15,918	16,555	16,555	-
Aides	7,869	8,041	8,040	1
Substitutes	500	42	42	-
Early Retirement	1,800	1,800	1,800	-
FICA	1,996	2,023	2,023	-
Health Insurance	26,962	22,531	21,753	778
Retirement	3,968	4,017	4,017	-
Workers' Compensation	48	75	75	-
Teaching Supplies	464	464	464	-
Total Pre-School	59,525	55,548	54,769	779
Driver Training:				
Salaries	12,000	10,500	8,328	2,172
FICA	918	804	637	167
Vehicle Insurance	855	-	-	-
Retirement	1,961	1,582	1,227	355
Maintenance	3,000	-	-	-
Gas, Oil & Grease	1,690	-	-	-

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Total Driver Training	20,424	12,886	10,192	2,694
Total Instruction - Basic Programs	6,901,543	6,830,011	6,800,856	29,155
Added Needs:				
Gifted and Talented:				
Travel	-	292	200	92
Special Education:				
Salaries:				
Teachers	571,234	567,851	567,851	-
Aides	151,746	179,393	179,319	74
Substitutes	9,962	11,372	9,229	2,143
Substitute Aides	8,150	9,600	8,597	1,003
Early Retirement	1,800	1,800	1,800	-
FICA	56,969	59,226	58,950	276
Health Insurance	213,059	252,363	250,372	1,991
Insurance Opt-out	1,800	3,920	3,800	120
Retirement	121,094	123,714	122,902	812
Travel	3,862	1,050	905	145
Workers' Compensation	1,322	2,272	2,272	-
Purchased Services	-	3,662	3,661	1
Teaching Supplies	6,696	6,790	6,505	285
Total Special Education	1,147,694	1,223,013	1,216,163	6,850
Title II:				
Salaries	43,357	43,357	43,357	-
FICA	3,317	3,317	3,317	-
Retirement	7,083	7,011	7,011	-
Purchased Services	5,450	5,450	5,450	-
Health Insurance	15,427	15,367	15,258	109
Travel	10,014	10,266	8,887	1,379
Workers' Compensation	85	100	100	-
Technology	5,101	3,424	3,424	-
Total Title II	89,834	88,292	86,804	1,488
Mini Grants:				
Durant Funds	19,700	57,101	36,560	20,541
Voc Ed Added Cost	26,485	44,285	28,098	16,187
At Risk Grant:				
Salaries	14,389	18,204	18,194	10
Health Insurance	-	437	436	1
Insurance Opt-out	-	2,321	2,000	321
Retirement	2,352	2,954	2,936	18
FICA	1,101	1,577	1,545	32
Alternative Ed Students	109,873	64,334	64,334	-
Accelerated Reader	2,000	2,000	2,000	-
Workers' Compensation	29	79	79	-
Title V	1,056	697	689	8
Drug Free Grant	3,478	3,289	3,289	-
Total Mini Grants	180,463	197,278	160,160	37,118
Title I:				
Salaries				
Director	7,154	7,156	7,156	-
Teachers	46,266	44,082	39,041	5,041
Aides	70,445	79,575	77,338	2,237
Substitute Aides	1,000	600	445	155
FICA	7,348	10,438	9,867	571
Health Insurance	34,606	34,635	32,934	1,701
Insurance Opt-out	1,200	5,000	5,000	-
Retirement	15,501	21,138	19,754	1,384

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Audit Services	600	600	600	-
Travel	3,868	-	-	-
Teaching Family Home	4,183	4,183	4,183	-
Workers' Compensation	305	458	458	-
Teaching Supplies	20,000	3,026	1,336	1,690
Total Title I	212,476	210,891	198,112	12,779
Indian Education;				
Salaries:				
Coordinator	20,408	20,408	20,408	-
Aides	2,400	2,663	2,663	-
FICA	1,745	1,765	1,765	-
Retirement	3,727	3,725	3,725	-
Audit Services	300	250	250	-
Telephone	300	300	300	-
Postage	125	125	125	-
Travel	-	467	467	-
Workers' Compensation	41	102	102	-
Other Supplies	104	-	-	-
Total Indian Education	29,150	29,805	29,805	-
Total Instruction - Added Needs	1,659,617	1,749,571	1,691,244	58,327
Total Instruction	8,561,160	8,579,582	8,492,100	87,482
Support Services:				
Pupil:				
Attendance:				
Salaries	24,686	26,025	26,024	1
FICA	1,888	2,375	2,373	2
Health Insurance	14,979	-	-	-
Insurance Opt-out	-	5,000	5,000	-
Retirement	4,033	4,201	4,201	-
Workers' Compensation	113	131	131	-
Total Attendance	45,699	37,732	37,729	3
Guidance:				
Salaries:				
Counselors	36,918	36,918	36,918	-
Secretary	23,582	25,130	25,130	-
Substitutes	1,170	843	843	-
Early Retirement	6,800	6,800	6,800	-
FICA	4,855	4,950	4,949	1
Health Insurance	27,320	22,633	22,517	116
Retirement	10,077	10,141	10,098	43
Workers' Compensation	182	213	213	-
Travel	540	135	62	73
Total Guidance	111,444	107,763	107,530	233
Health:				
Salaries	44,810	46,310	46,309	1
FICA	3,430	3,545	3,543	2
Health Insurance	14,980	15,504	15,502	2
Retirement	7,320	7,470	7,468	2
Workers' Compensation	94	1,595	1,595	-
Travel	1,500	778	191	587
Other Supplies	1,500	1,500	873	627
Total Health	73,634	76,702	75,481	1,221

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Speech, Pathology & Audiology:				
Salaries	85,693	87,370	87,369	1
FICA	6,555	6,685	6,684	1
Health Insurance	19,280	19,063	19,047	16
Retirement	14,002	14,132	14,131	1
Travel	577	136	-	136
Workers' Compensation	165	197	197	-
Teaching Supplies	810	230	229	1
Total Speech, Pathology & Audiology	127,082	127,813	127,657	156
Other Pupil Services:				
FICA	-	25	24	1
Retirement	-	52	51	1
Homebound Services	2,000	423	315	108
Total Other Pupil Services	2,000	500	390	110
Teacher Consultant:				
Salaries	61,198	61,864	61,863	1
FICA	4,682	4,733	4,732	1
Health Insurance	15,427	15,260	15,259	1
Retirement	10,000	9,865	9,865	-
Workers' Compensation	124	141	141	-
Total Teacher Consultant	91,431	91,863	91,860	3
Total Support Services - Pupil	451,290	442,373	440,647	1,726
Instructional Staff:				
Library:				
Salaries:				
Librarian	54,178	54,179	54,178	1
Clerks	70,870	79,872	71,942	7,930
Substitutes	3,164	2,978	2,314	664
Early Retirement	4,950	4,950	4,950	-
FICA	10,278	11,251	10,589	662
Health Insurance	50,843	40,762	39,195	1,567
Insurance Opt-out	1,200	5,000	5,000	-
Retirement	20,952	22,167	20,446	1,721
Books	8,456	8,521	8,463	58
Periodicals	2,529	2,136	1,631	505
Other Supplies	2,756	3,084	2,771	313
Audio Visual Supplies	2,052	2,052	2,051	1
Multimedia Supplies	2,052	2,052	2,052	-
Workers' Compensation	465	525	525	-
Travel	500	500	491	9
Purchased Services	-	2,000	2,000	-
Maintenance	3,600	3,600	3,600	-
Total Library	238,845	245,629	232,198	13,431
2% Casino Funds:				
Salaries:				
Aides	5,000	6,207	2,742	3,465
FICA	283	475	210	265
Retirement	817	999	432	567
Travel	-	2,320	1,048	1,272
Textbooks	-	45,000	45,000	-
Purchased Services	-	1,000	-	1,000
Other Supplies	8,059	7,479	1,281	6,198
Total 2% Casino Funds	14,159	63,480	50,713	12,767
Total Support Services - Instructional Staff	253,004	309,109	282,911	26,198

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
General Administration:				
Board of Education:				
Purchased Services	10,000	6,615	6,614	1
Legal Services	30,000	22,600	22,579	21
Audit Services	9,600	9,650	9,650	-
Travel	2,430	680	386	294
Advertising:				
Board	3,500	2,655	2,528	127
Elections	500	-	-	-
Election Supplies	1,350	1,014	1,014	-
Election Inspectors	2,000	2,130	2,126	4
Dues & Fees	5,500	4,450	4,426	24
Miscellaneous	2,430	736	625	111
Total Board of Education	67,310	50,530	49,948	582
Executive Administration:				
Salaries:				
Superintendent	91,000	92,500	92,484	16
Secretary	33,397	35,500	35,485	15
Substitute Secretary	100	200	158	42
Early Retirement	1,800	1,800	1,800	-
FICA	9,662	9,875	9,875	-
Health Insurance	31,392	28,436	28,392	44
Annuities	3,000	3,000	3,000	-
Retirement	20,342	20,440	20,438	2
Office Supplies	2,430	2,000	1,510	490
Workers' Compensation	340	376	376	-
Dues & Fees	1,800	1,800	1,793	7
Travel	6,120	4,089	2,914	1,175
Miscellaneous	1,620	250	132	118
Total Executive Administration	203,003	200,266	198,357	1,909
Total Support Services - General Administration	270,313	250,796	248,305	2,491
School Administration:				
Office of the Principals:				
Salaries:				
Assistant Principals	121,217	126,699	126,698	1
Building Principals	288,308	288,308	288,307	1
Elementary Secretary	53,239	51,556	51,554	2
Secondary Secretary	48,532	57,628	56,159	1,469
Substitute Secretaries	3,775	3,057	2,759	298
Early Retirement	6,450	5,400	5,100	300
FICA	40,218	41,354	41,128	226
Health Insurance	120,723	115,775	114,203	1,572
Insurance Opt-out	4,200	6,800	6,800	-
Retirement	84,164	84,715	84,321	394
Purchased Services	15,928	18,391	18,388	3
Office Supplies	5,356	1,844	1,086	758
Workers' Compensation	1,205	1,498	1,498	-
Dues & Fees	4,848	3,314	3,314	-
Travel	4,120	3,539	2,296	1,243
Other Supplies	10,775	1,059	1,053	6
Total Office of the Principals	813,058	810,937	804,664	6,273
Other School Administration:				
Director	67,723	67,723	67,723	-
FICA	5,181	5,187	5,186	1
Health Insurance	16,358	16,219	16,200	19
Retirement	11,066	10,913	10,913	-
Technology Supplies	21,600	21,600	17,752	3,848

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Workers' Compensation	134	156	156	-
Novell Licenses	4,350	4,295	4,295	-
Travel	1,125	1,125	745	380
Telephone Maintenance	1,000	1,000	293	707
Contracted Services	54,800	54,800	42,078	12,722
Other Supplies	9,720	9,720	7,829	1,891
Total Other School Administration	193,057	192,738	173,170	19,568
Total Support Services - School Administration	1,006,115	1,003,675	977,834	25,841
Business:				
Fiscal Services:				
Salaries:				
Business Manager	67,723	67,723	67,723	-
Assistant	36,400	42,266	42,265	1
FICA	7,965	8,420	8,419	1
Health Insurance	31,337	28,813	28,336	477
Retirement	17,014	17,559	17,558	1
Purchased Services	7,016	8,331	8,330	1
Repair & Maintenance	1,000	500	468	32
Office Supplies	1,800	1,670	1,669	1
Workers' Compensation	322	521	521	-
Dues & Fees	163	145	145	-
Travel	900	1,200	1,182	18
Other Supplies	1,800	1,500	1,427	73
Total Fiscal Services	173,440	178,648	178,043	605
Other Business Services:				
Workers Compensation				-
Unemployment Compensation				-
Building Insurance	30,906	31,501	31,501	-
Other Insurance	3,216	4,000	3,372	628
Taxes Written Off	10,000	8,000	5,766	2,234
Total Other Business Services	44,122	43,501	40,639	2,862
Total Support Services - Business	217,562	222,149	218,682	3,467
Operation & Maintenance:				
Operation & Maintenance of Plant:				
Salaries:				
Building & Grounds Supervisor	44,303	45,803	45,803	-
Custodians	331,697	359,315	351,769	7,546
Laborers	16,380	15,785	15,785	-
Substitute Custodians	26,350	16,799	14,650	2,149
Overtime Custodians	800	500	119	381
Severance Pay	12,939	13,366	13,366	-
FICA	32,599	35,540	33,342	2,198
Health Insurance	177,991	158,817	149,907	8,910
Insurance Opt-out	1,200	2,400	2,308	92
Retirement	68,551	70,315	68,018	2,297
Early Retirement	5,400	5,400	5,400	-
Postage & Mailing	11,400	10,215	8,969	1,246
Telephone	29,400	12,180	11,587	593
Rental	5,400	5,500	5,259	241
Natural Gas	180,000	230,012	229,345	667
Electricity	124,590	114,747	113,459	1,288
Waste & Trash Removal	8,265	9,800	9,090	710
Water & Sewage	12,320	19,900	17,649	2,251
Insurance - Vehicles	456	456	456	-
Repair & Maintenance	46,800	52,858	51,794	1,064
Snow Plowing	14,000	16,303	16,303	-

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Gas, Oil & Grease	1,500	1,500	1,425	75
Liquid Gas	1,000	-	-	-
Custodial Supplies	23,400	32,700	26,799	5,901
Maintenance Supplies	21,600	25,450	23,646	1,804
Unemployment	-	1,416	1,415	1
Workers' Compensation	-	11,579	11,579	-
Travel	3,600	-	-	-
Small Tools	900	900	578	322
Total Support Services - Operation & Maintenance	1,202,841	1,269,556	1,229,820	39,736
Pupil Transportation:				
Salaries:				
Director	44,340	45,840	45,840	-
Mechanic	27,678	29,629	29,629	-
Drivers	215,339	218,978	217,477	1,501
Substitutes	11,600	12,000	11,152	848
Early Retirement	7,200	7,200	7,200	-
FICA	23,421	26,437	26,435	2
Health Insurance	134,863	67,531	62,522	5,009
Insurance Opt-out	-	33,000	32,154	846
Retirement	48,849	47,466	47,464	2
Workers' Compensation	-	7,216	7,216	-
Unemployment	-	2,101	2,101	-
Purchased Services	5,000	17,562	17,561	1
Other Supplies	2,500	500	270	230
Insurance - Vehicles	6,582	11,574	11,574	-
Repair & Maintenance	3,950	6,950	3,464	3,486
Gas, Oil & Grease	60,000	66,798	65,638	1,160
Towing	1,000	500	425	75
Tires, Tubes & Batteries	5,000	5,000	-	5,000
Vehicle Repair Parts	31,000	27,892	23,713	4,179
Travel	450	450	189	261
Total Support Services - Pupil Transportation	628,772	634,624	612,024	22,600
Activities Office:				
Salaries:				
Director	40,022	42,682	42,682	-
Secretary	23,582	24,990	24,637	353
Substitutes	390	600	540	60
FICA	4,896	5,223	5,191	32
Health Insurance	29,958	26,642	25,932	710
Retirement	10,456	11,016	10,919	97
Repair and Maintenance	500	895	625	270
Office Supplies	1,223	1,223	1,223	-
Dues & Fees	450	450	450	-
Other Supplies	360	360	351	9
Total Activities Office	111,837	114,081	112,550	1,531
School Improvement:				
Staff/Personnel Services:				
Other Supplies	8,000	4,300	2,781	1,519
Outgoing Transfers:				
ISD Contracted Services	60,507	55,445	55,445	-
Alternative Ed Students	13,877	979	979	-
ISD Special Education	79,537	22,626	22,626	-
Total Outgoing Transfers	153,921	79,050	79,050	-
Capital Outlay:				
Operation of Plant	20,700	-	-	-

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Debt Service:				
Principal Retirement	21,593	21,593	21,593	-
Interest and Fiscal Charges	27,723	45,563	45,561	2
Total Debt Service	49,316	67,156	67,154	2
Total Support Services	4,373,671	4,396,869	4,271,758	125,111
TOTAL EXPENDITURES	12,934,831	12,976,451	12,763,858	212,593
EXCESS REVENUES (EXPENDITURES)	(202,535)	(257,566)	(109,639)	147,927
OTHER FINANCING SOURCES (USES);				
Interest Earned	36,000	54,500	54,769	269
Operating Transfers Out	(153,935)	(224,551)	(224,551)	-
TOTAL OTHER FINANCING SOURCES (USES)	(117,935)	(170,051)	(169,782)	269
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	(320,470)	(427,617)	(279,421)	148,196
Fund Balance, Beginning of Year	635,136	635,136	635,136	-
FUND BALANCE, END OF YEAR	\$ 314,666	\$ 207,519	\$ 355,715	\$ 148,196

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

For the year ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES:				
Local Sources:				
Property Tax Levy	\$ 1,542,583	\$ 1,560,297	\$ 1,560,297	\$ -
EXPENDITURES:				
Debt Service:				
Principal	680,000	680,000	680,000	-
Interest and Fiscal Charges	895,276	913,434	913,310	124
TOTAL EXPENDITURES	1,575,276	1,593,434	1,593,310	124
EXCESS REVENUES (EXPENDITURES)	(32,693)	(33,137)	(33,013)	124
OTHER FINANCING SOURCES (USES):				
Interest Earned	7,000	7,000	10,368	3,368
NET CHANGE IN FUND BALANCES	(25,693)	(26,137)	(22,645)	3,492
Fund Balance, Beginning of Year	342,407	342,407	342,407	-
FUND BALANCE, END OF YEAR	\$ 316,714	\$ 316,270	\$ 319,762	\$ 3,492

OTHER SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

	<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>School Lunch</u>	<u>Athletic and Bookstore</u>	<u>Public Library</u>	<u>Technology</u>	<u>Major Maintenance</u>	
ASSETS:						
Cash and Equivalents	\$ 16,026	\$ 10,768	\$ 46,204	\$ -	\$ -	\$ 72,998
Investments	-	-	-	10,057	207,140	217,197
Accounts Receivable	27,195	-	-	-	-	27,195
Due from Other Funds	3,382	-	-	-	-	3,382
Inventory	14,524	-	-	-	-	14,524
TOTAL ASSETS	\$ 61,127	\$ 10,768	\$ 46,204	\$ 10,057	\$ 207,140	\$ 335,296
LIABILITIES:						
Accounts Payable	\$ 7,979	\$ 88	\$ 1,107	\$ -	\$ -	\$ 9,174
Deferred Revenue	11,045	-	-	-	-	11,045
Accrued Employee Benefits	3,725	-	1,898	-	-	5,623
Accrued Payroll	-	-	3,622	-	-	3,622
TOTAL LIABILITIES	22,749	88	6,627	-	-	29,464
FUND BALANCES						
Reserved:						
Reserved for Inventory	3,479	-	-	-	-	3,479
Unreserved:						
Undesignated	34,899	10,680	39,577	10,057	207,140	302,353
TOTAL FUND BALANCES	38,378	10,680	39,577	10,057	207,140	305,832
TOTAL LIABILITIES AND FUND BALANCES	\$ 61,127	\$ 10,768	\$ 46,204	\$ 10,057	\$ 207,140	\$ 335,296

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2006

	<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>School Lunch</u>	<u>Athletic and Bookstore</u>	<u>Public Library</u>	<u>Technology</u>	<u>Major Maintenance</u>	
REVENUES:						
Local Sources	\$ 222,196	\$ 45,995	\$ 114,594	\$ -	\$ -	\$ 382,785
State Sources	20,036	-	5,605	-	-	25,641
Federal Sources	205,026	-	-	-	-	205,026
Other	5,511	-	-	-	-	5,511
TOTAL REVENUES	<u>452,769</u>	<u>45,995</u>	<u>120,199</u>	<u>-</u>	<u>-</u>	<u>618,963</u>
EXPENDITURES:						
Support Services - Pupil:						
Food Services	446,291	-	-	-	-	446,291
Athletics & Bookstore	-	185,131	-	-	-	185,131
Total Support Services - Pupil	<u>446,291</u>	<u>185,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>631,422</u>
Community Services:						
Library	-	-	115,497	-	-	115,497
Capital Outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>446,291</u>	<u>185,131</u>	<u>115,497</u>	<u>-</u>	<u>-</u>	<u>746,919</u>
EXCESS REVENUES (EXPENDITURES)	<u>6,478</u>	<u>(139,136)</u>	<u>4,702</u>	<u>-</u>	<u>-</u>	<u>(127,956)</u>
OTHER FINANCING SOURCES:						
Interest Earned	1,012	170	652	385	4,768	6,987
Operating Transfers In	-	141,691	-	-	82,860	224,551
TOTAL OTHER FINANCING SOURCES	<u>1,012</u>	<u>141,861</u>	<u>652</u>	<u>385</u>	<u>87,628</u>	<u>231,538</u>
NET CHANGE IN FUND BALANCES	<u>7,490</u>	<u>2,725</u>	<u>5,354</u>	<u>385</u>	<u>87,628</u>	<u>103,582</u>
Fund Balances, Beginning of Year	<u>30,888</u>	<u>7,955</u>	<u>34,223</u>	<u>9,672</u>	<u>119,512</u>	<u>202,250</u>
FUND BALANCES, END OF YEAR	<u>\$ 38,378</u>	<u>\$ 10,680</u>	<u>\$ 39,577</u>	<u>\$ 10,057</u>	<u>\$ 207,140</u>	<u>\$ 305,832</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUSTS**

June 30, 2006

	Health Services	Scholarship	Totals
ASSETS:			
Cash and Equivalents	\$ 3,064	\$ 11,671	\$ 14,735
Accounts Receivable	-	10,250	10,250
TOTAL ASSETS	<u>\$ 3,064</u>	<u>\$ 21,921</u>	<u>\$ 24,985</u>
LIABILITIES:			
Scholarships Payable	<u>\$ -</u>	<u>\$ 13,750</u>	<u>\$ 13,750</u>
NET ASSETS:			
Reserved for Scholarships	\$ -	\$ 8,171	\$ 8,171
Unreserved	3,064	-	3,064
TOTAL NET ASSETS	<u>\$ 3,064</u>	<u>\$ 8,171</u>	<u>\$ 11,235</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2006

	Health Services	Scholarship	Totals
ADDITIONS:			
Gifts and Contributions	\$ 3,448	\$ 12,800	\$ 16,248
Interest Earned	-	92	92
TOTAL ADDITIONS	3,448	12,892	16,340
DEDUCTIONS:			
Scholarships Awarded	-	14,750	14,750
Miscellaneous	1,213	-	1,213
TOTAL DEDUCTIONS	1,213	14,750	15,963
CHANGE IN NET ASSETS	2,235	(1,858)	377
Net Assets, Beginning of Year	829	10,029	10,858
NET ASSETS, END OF YEAR	\$ 3,064	\$ 8,171	\$ 11,235

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2006

	<u>Balances 6/30/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances 6/30/2006</u>
<u>MIDDLE SCHOOL STUDENT COUNCIL</u>				
ASSETS:				
Cash in Bank	\$ 26,081	\$ 21,922	\$ 28,294	\$ 19,709
LIABILITIES:				
Due to Student Groups:				
Cheerleaders	\$ 16	\$ -	\$ 16	\$ -
Music	681	3,652	3,821	512
Student Council	25,184	16,470	24,402	17,252
Friday Incentive Time	55	-	55	-
Athletics	145	-	-	145
Washington D.C.	-	1,800	-	1,800
TOTAL LIABILITIES	\$ 26,081	\$ 21,922	\$ 28,294	\$ 19,709

HIGH SCHOOL ACTIVITY FUND

ASSETS:				
Cash in Bank	\$ 70,972	\$ 107,049	\$ 105,430	\$ 72,591
LIABILITIES:				
Due to Student Groups				
Class of 2005	\$ 371	\$ -	\$ 371	\$ -
Class of 2006	4,128	5,001	6,746	2,383
Class of 2007	5,642	11,342	9,239	7,745
Class of 2008	536	5,980	3,975	2,541
Class of 2009	-	2,691	1,116	1,575
Building Use	378	2,545	1,702	1,221
Business Club	1,233	2,858	3,190	901
Creative Arts Club	559	284	25	818
Drama Club	4,812	3,248	3,967	4,093
French Club	1,592	1,709	1,060	2,241
Smith Scholarship	850	-	57	793
Industrial Arts Project	3,212	2,261	3,206	2,267
Key Club	1,614	1,138	1,399	1,353
Music	9,943	14,956	16,353	8,546
Natural Helpers	2,695	253	700	2,248
National Honor Society	500	2,818	3,155	163
Quill and Scroll	918	-	-	918
S.A.D.D.	608	-	218	390
Senior Magazine	340	1,425	1,425	340
Spanish Club	980	2,932	1,778	2,134
Weight Room	977	319	337	959
Student Activities	8,122	27,186	24,082	11,226
Student Council	1,305	4,016	4,244	1,077
Yearbook	19,013	14,087	17,085	16,015

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2006

	Balances 6/30/2005	Additions	Deductions	Balances 6/30/2006
John Hansen Scholarship	\$ 644	\$ -	\$ -	\$ 644
TOTAL LIABILITIES	<u>\$ 70,972</u>	<u>\$ 107,049</u>	<u>\$ 105,430</u>	<u>\$ 72,591</u>
 <u>JAMES T. JONES ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	<u>\$ 9,370</u>	<u>\$ 14,283</u>	<u>\$ 15,698</u>	<u>\$ 7,955</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 9,370</u>	<u>\$ 14,283</u>	<u>\$ 15,698</u>	<u>\$ 7,955</u>
 <u>VOCATIONAL ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	<u>\$ 1,034</u>	<u>\$ 1,371</u>	<u>\$ 1,553</u>	<u>\$ 852</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 1,034</u>	<u>\$ 1,371</u>	<u>\$ 1,553</u>	<u>\$ 852</u>
 <u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS:				
Cash in Bank	<u>\$ 107,457</u>	<u>\$ 144,625</u>	<u>\$ 150,975</u>	<u>\$ 101,107</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 107,457</u>	<u>\$ 144,625</u>	<u>\$ 150,975</u>	<u>\$ 101,107</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS,
TAX RATES AND TAX LEVIES**

June 30, 2006

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
GENERAL FUND:			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 22,119,138	18.0	\$ 398,144
Escanaba Township	13,219,132	18.0	237,944
Brampton Township	3,321,259	18.0	59,783
TOTALS	<u>\$ 38,659,529</u>	<u>18.0</u>	<u>\$ 695,872</u>
DEBT RETIREMENT FUNDS:			
(on total taxable valuation)			
City of Gladstone	\$ 83,668,100	8.56	\$ 716,199
Escanaba Township	78,528,024	8.56	672,200
Brampton Township	17,956,203	8.56	153,705
TOTALS	<u>\$ 180,152,327</u>	<u>8.56</u>	<u>\$ 1,542,104</u>

See accompanying notes to financial statements.

SINGLE AUDIT



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah M. Peloza, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Gladstone Area Schools
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, Gladstone, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Gladstone Area Schools' basic financial statements and have issued our report thereon dated August 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Gladstone Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gladstone Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we

do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of the Gladstone Area Schools in a separate letter dated August 28, 2006.

This report is intended solely for the information and use of the School Board, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company P.C.

Certified Public Accountants

August 28, 2006



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Gladstone Area Schools
Gladstone, Michigan 49837

Compliance

We have audited the compliance of the Gladstone Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Gladstone Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Gladstone Area Schools' management. Our responsibility is to express an opinion on the Gladstone Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Gladstone Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Gladstone Area Schools' compliance with those requirements.

In our opinion, the Gladstone Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Gladstone Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Gladstone Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Board, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andersey, Tackman & Company P.C.

Certified Public Accountants

August 28, 2006

GLADSTONE AREA SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Project Number	Federal CFDA Number	Program or Award Amount	Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/2005	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue 6/30/2006
-	10.550	\$ 20,668	\$ 19,203	\$ (7,456)	\$ 18,295	\$ 14,706	\$ 18,295	\$ (11,045)
-	10.550	1,826	3,030	-	1,826	1,826	1,826	-
		22,494	22,233	(7,456)	20,121	16,532	20,121	(11,045)
-	10.553	27,358	25,491	-	27,358	27,358	27,358	-
-	10.555	157,547	150,187	-	157,547	157,547	157,547	-
		184,905	175,678	-	184,905	184,905	184,905	-
		207,399	197,911	(7,456)	205,026	201,437	205,026	(11,045)
-	84.060	29,794	29,150	-	29,794	29,794	29,794	-
41530-0304	84.010	221,013	27,012	-	-	-	-	-
41530-0405	84.010	11,462	11,461	1,139	1,140	1	-	-
51530-0405	84.010	204,904	184,053	11,050	26,125	15,075	15,075	-
51530-0506	84.010	5,776	-	-	5,776	5,776	5,776	-
61530-0506	84.010	190,038	-	-	113,376	177,261	177,261	63,885
		633,193	222,526	12,189	146,417	198,113	198,112	63,885
40520-0304	84.367	65,390	4,639	-	-	-	-	-
40520-0405	84.367	21,093	16,356	-	4,737	4,737	-	-
50520-0405	84.367	84,362	84,480	24,333	24,333	-	-	-
50520-0506	84.367	243	-	-	243	243	-	-
60520-0506	84.367	84,758	-	98	46,795	78,399	83,379	31,702
64290-0506	84.318	3,424	5,101	-	3,424	3,424	3,424	-
		259,270	110,556	24,431	79,532	86,803	86,803	31,702
50250-0405	84.298	1,056	1,056	-	-	-	-	-
60250-0506	84.298	697	-	-	340	689	689	349
		1,753	1,056	-	340	689	689	349
		894,216	334,138	36,620	226,289	285,605	285,604	95,936

FEDERAL GRANTOR/PASS THROUGH PROGRAM TITLE

U.S. Department of Agriculture:

Received Directly:
U.S.D.A. Commodities - Entitlement
U.S.D.A. Commodities - Bonus

PROGRAM TOTAL

Passed Through the State Department of Education:

National School Lunch - Breakfast Program
National School Lunch - Regular

PROGRAM TOTAL

TOTAL U.S. DEPARTMENT OF AGRICULTURE

U.S. Department of Education:

Received Directly:

Title V, Part C - Indian Education

Passed Through the State Department of Education:

ECIA - Title I - 2004 Regular
ECIA - Title I - 2004 Carryover
ECIA - Title I - 2005 Regular
ECIA - Title I - 2005 Carryover
ECIA - Title I - 2006 Regular

PROGRAM TOTAL

Title II, Part A

Title II, Part A, Carryforward

Title II, Part A

Title II, Part A, Carryforward

Title II, Part A

Title II, Part A

Title II, Part D

PROGRAM TOTAL

Title V

Title V

PROGRAM TOTAL

**TOTAL PASSED THROUGH THE STATE
DEPARTMENT OF EDUCATION**

See accompanying federal financial awards notes.

GLADSTONE AREA SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Project Number	Federal CFDA Number	Program or Award Amount	Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/2005	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue 6/30/2006
Passed through the ISD:								
-	84.186	10,978	10,978	-	-	-	-	-
-	84.186	3,289	-	-	3,289	3,289	3,289	-
PROGRAM TOTAL								
-	-	14,267	10,978	-	3,289	3,289	3,289	-
Special Education - IDEA								
-	84.027	64,172	64,172	-	-	-	-	-
TOTAL PASSED THROUGH THE ISD								
-	-	78,439	75,150	-	3,289	3,289	3,289	-
TOTAL PASSED THROUGH								
-	-	972,655	409,288	36,620	229,578	288,894	288,893	95,936
TOTAL U.S. DEPARTMENT OF EDUCATION								
-	-	1,002,449	438,438	36,620	259,372	318,688	318,687	95,936
U.S. Department of Health and Human Services:								
Passed Through the Intermediate School District:								
-	93.778	37,547	37,547	5,388	5,388	-	-	-
-	93.778	37,653	-	-	19,641	37,653	37,653	18,012
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
-	-	75,200	37,547	5,388	25,029	37,653	37,653	18,012
U.S. Office for Domestic Preparedness:								
Passed Through the Michigan Department of State Police:								
-	97.004	4,229	-	-	4,229	4,229	4,229	-
2003 State Homeland Security Grant Program, Part II Equipment								
-	-	\$ 1,289,277	\$ 673,896	\$ 34,552	\$ 493,656	\$ 562,007	\$ 565,595	\$ 102,903
TOTAL FEDERAL FINANCIAL ASSISTANCE								

See accompanying federal financial awards notes.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FEDERAL FINANCIAL AWARDS NOTES

For the year ended June 30, 2006

NOTE A – OVERSIGHT AGENCY

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's direct federal financial awards.

NOTE B – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – FEDERAL GRANT RECEIPTS

All federal grant receipts of the Gladstone Area Schools are included in the scope of this report.

NOTE D – FORM R7120 RECONCILIATION

The amounts reported on the R7120 Grants Section Auditors Report, reconciles with the Schedule of Expenditures of Federal Awards.

NOTE E – EXPENDITURE AGREEMENT

The expenditures in the Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports for the Gladstone Area Schools.

NOTE F – USDA COMMODITIES AGREEMENT

The amounts reported in the Schedule of Expenditures of Federal Awards agrees with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the Gladstone Area Schools.

NOTE G – FEDERAL REVENUE RECONCILIATION

The federal revenue listed in the financial statements does not match the federal revenue listed in the Schedule of Expenditures of Federal Awards due to the receipt of an equipment grant from the U.S. Office for Domestic Preparedness. A reconciliation of the two amounts is as follows:

Federal revenue per financial statements	\$ 561,366
Equipment grant	<u>4,229</u>
Federal revenue per Schedule of Expenditures of Federal Awards	<u>\$ 565,595</u>

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Gladstone Area Schools.
2. There were no reportable conditions disclosed during the audit of the financial statements to be reported in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. There were no instances of noncompliance material to the financial statements on the Gladstone Area Schools disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs to be reported in the *Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for the Gladstone Area Schools expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was as follows:

Title I, CFDA #84.010
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The Gladstone Area Schools does qualify as a low-risk auditee.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

B. FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

GLADSTONE AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2006

D. RESOLUTION OF PRIOR YEAR FINDINGS

There were no prior year findings.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah M. Pelozo, CPA

REPORT TO MANAGEMENT

Board of Education
Gladstone Area Schools
Gladstone, Michigan

Audit Committee Communications

We have audited the financial statements of Gladstone Area Schools for the year ended June 30, 2006, and have issued our reports thereon dated August 28, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning and performing our audit, we considered the Gladstone Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Gladstone Area Schools' financial statements are free of material misstatement, we performed tests of its' compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Gladstone Area Schools' compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its' major federal programs for the purpose of expressing an opinion on the Gladstone Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our

opinion, it does not provide a legal determination on the Gladstone Area Schools' compliance with those requirements.

As part of our audit, we considered the internal control structure of the Gladstone Area Schools. Management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Gladstone Area Schools are described in Note A of the financial statements. No new accounting policies were adopted and the applications of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Gladstone Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates. The most sensitive estimate affecting the financial statements was the determination of useful lives on fixed assets. These estimates are based on use history for similar type assets.

Significant Audit Adjustments

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Gladstone Area Schools, or a determination of the type of auditor's opinion to be expressed on those financial statements, our professional standards require the consulting accountant advise us so we may determine if the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention as Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Suggestions

In planning and performing our audit of the financial statements of the Gladstone Area Schools for the year ended June 30, 2006, we considered the School's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 28, 2006, on the financial statements of the Gladstone Area Schools.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the School Board, the management of the District and state and federal agencies and is not intended and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company P.C.
Certified Public Accountants

August 28, 2006

GLADSTONE AREA SCHOOLS

COMMENTS AND RECOMMENDATIONS

June 30, 2006

TRUST AND AGENCY DISBURSEMENTS

During our audit we noted that some trust and agency fund disbursements did not receive administrative approval. While we believe that it is unnecessary to have each transaction approved we feel it would enhance the internal control over trust and agency funds if transactions over a certain dollar threshold (\$500 for example) were to receive administrative approval from either the business manager or superintendent. This would further the controls over spending in these funds to assure proper use of the trust and agency deposits.